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MARKET SEGMENT REPORT: HAMBU

Restaurant Business®

A BILL PUBLICATION

JANUARY 1, 1988

CHURCH'S FRIED CHICKEN

BAMBERGER BREAKS GROUND ON TURNAROUND

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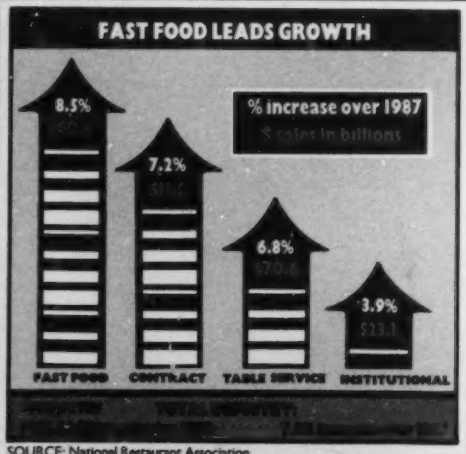
* NEW COLUMN

BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

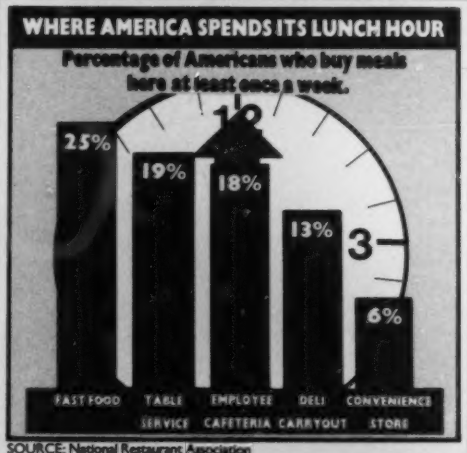
By Howard Riell



SOURCE: National Restaurant Association

Industry Will Top $200B For First Time

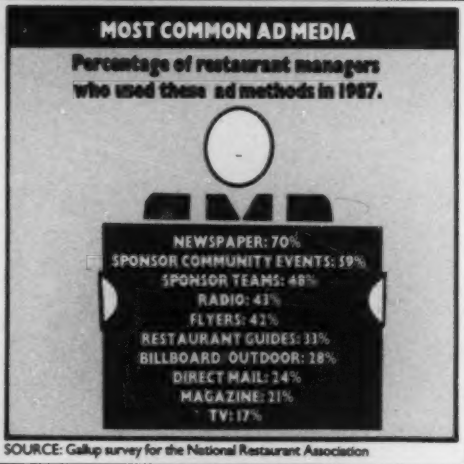
The year ahead will also be foodservice's eighth consecutive one of real growth—2.9, as compared with 2.7 last year—said Michael Grisanti, president of the National Restaurant Association, at a press conference in New York. In forecasting increases in real growth for almost every segment (2.5 percent for table-service restaurants, 4.3 percent for fast food, 2.9 percent for contract feeders, none at all for the institutional segment), he warned that "the significant stock market decline that occurred on October 19 and the fluctuations that have occurred in subsequent weeks certainly must be considered when evaluating the economy."



SOURCE: National Restaurant Association

Employee Dining Areas Gaining Ground

NRA treasurer Harris "Bud" Rusitzky noted at the same press conference, at the Hotel Inter-Continental, that "another area where cost containment and quality have resulted in greater contractor penetration is in employee foodservice." Real food and drink sales by contractors in commercial and office buildings are expected to rise by nearly five percent, Rusitzky said. Clearly, more and more employers are viewing employee dining facilities as incentives and rewards, rather than merely an obligatory service. NRA officials agreed that the percentage at left will continue to increase in the months and years to come.



SOURCE: Gallup survey for the National Restaurant Association

Empty Tables? Try Print, Sponsor A Team

Overall ad/promo spending is expected to increase "significantly" in '88. A poll conducted for the NRA by the Gallup Organization shows that 25 percent of restaurant operators plan to increase advertising expenditures this year (the number rises to 41 percent when chains and franchised restaurants are considered separately). Another 58 percent said they planned to maintain their 1987 budget levels. A scant four percent indicated they would cut their ad dollars. Grisanti said these figures were the result of the industry's having entered "a mature phase typified by slower sales growth and increased competition."

CHARTS DESIGNED BY SHARI FANG

Restaurant Business

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Cover Story

TURNAROUND STRATEGY **CHURCH'S.** *In its 37-year history, the San Antonio-based chain has scaled the heights, and it's hit the bottom. But J. David Bamberger, president and chairman of 1,100-unit Church's Fried Chicken Inc., thinks the worst is over. He means to put an end to persistent takeover rumors, build short-term profits with a back-to-basics approach, and change Church's marketing thrust with a new emphasis on suburban locations and double-drive-thru units* **83**

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Cover photograph of J. David Bamberger, chairman and president, Church's Fried Chicken Inc., by Paul Liggett.

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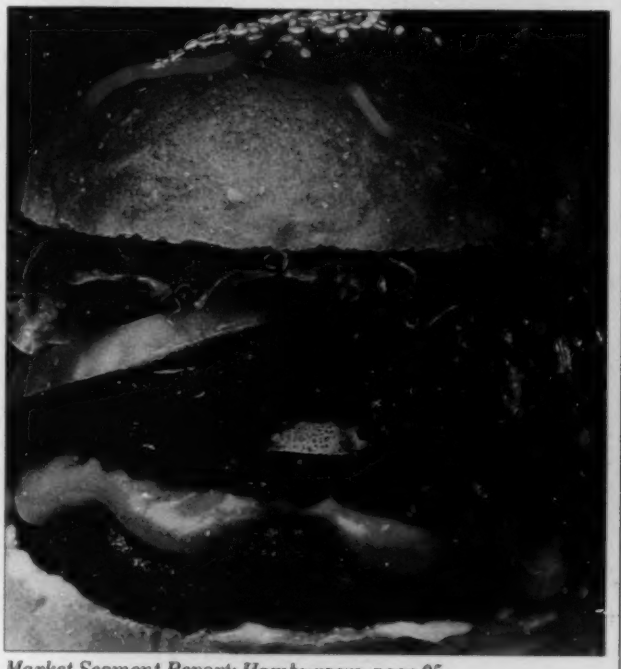

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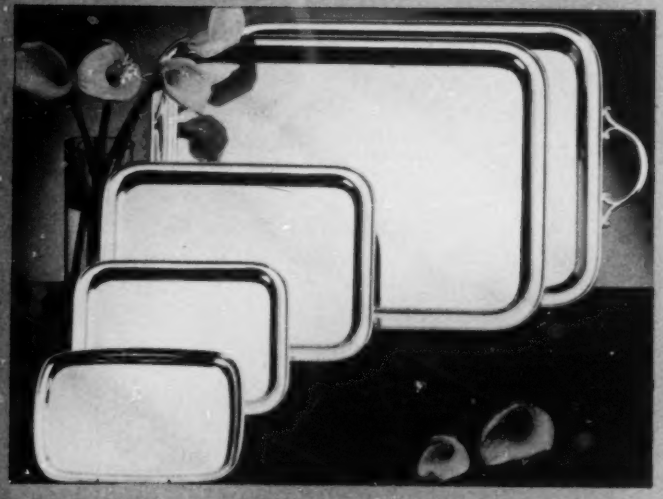

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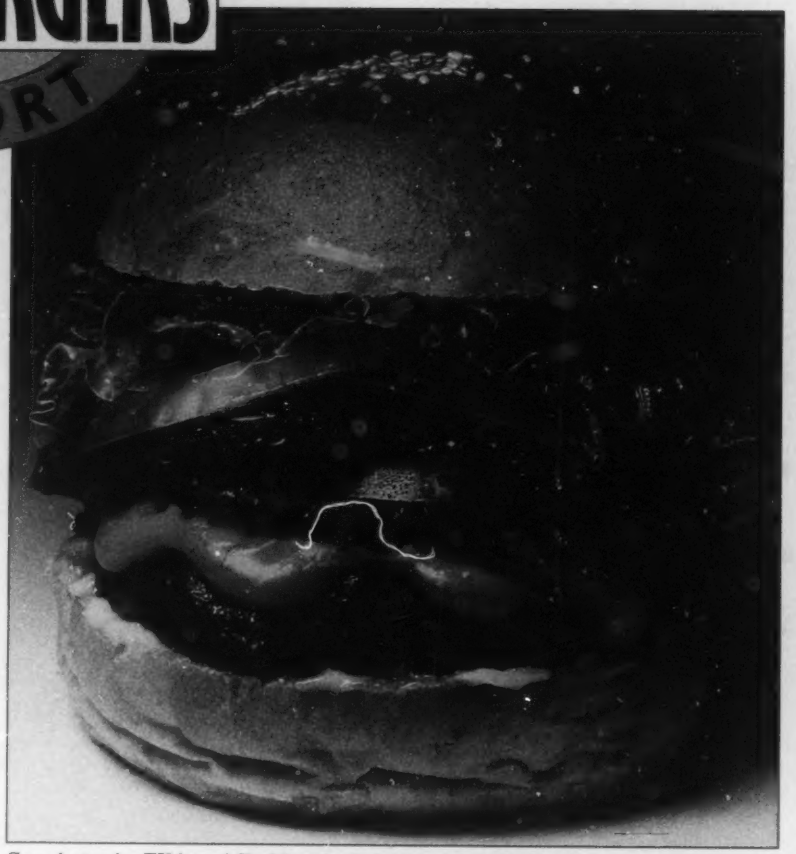
MARKET SEGMENT REPORT

HAMBURGERS

As the burger giants get bigger, there is still room for growth, especially for the regional chains and the drive-thru-only 'Burger Babies.'



San Antonio, TX-based Fuddrucker's is a survivor in the Gourmet Burger niche and still bases its success on freshly ground and custom-dressed burgers.

BY JACQUE KOCHAK

The hamburger continues to be an all-time American favorite. Last year, according to the National Restaurant Association (NRA), foodservice sold 5.2 billion burgers.

According to the NRA's menu census, hamburgers and cheeseburgers are ordered on 18.7 percent of dining-out occasions. Only french fries are ordered more often. Despite all the talk about the decline in popularity of red meat, hamburgers and cheeseburgers are ordered twice as often as chicken or poultry, which customers seek out on only 9.3 percent of dining occasions.

Unquestionably, then, there is a giant market for hamburgers, and there are giant companies filling the demand. The largest, of course, is gargantuan McDonald's, followed by Burger King, Wendy's, and Hardee's.

Trends are hard to decipher: While one company's sales are up dramatically, another reports that sales are down, and still a third is faced with flat sales. And the menu diversification pursued by many hamburger purveyors has proven a boon for San Diego, CA-based Jack in the Box, but a bane for Dublin, OH-based Wendy's.

Analysts agree that the segment is mature, and they have been predicting a slowdown in expansion as prime sites become increasingly rare and expensive. The burger Big Boys have responded by seeking out nontraditional locations, such as military bases, schools, hospitals, and airports. Regional and local chains are thriving, mining their regional roots. A new breed, scaled-down Burger Babies serving limited menus from small buildings in a drive-thru-only format, has emerged. And, though the Gourmet Burger boom was a bust, there are a few survivors.

So, is the segment saturated? Is there room for yet another contestant in the Battle of the Burgers? "There is room. You just have to do a better job than the big shots," says one small multi-unit operator in the Midwest.

Analysts agree that there is opportunity on a regional basis, but express some doubts about the potential for another national burger chain. "It is very difficult for a new company to start up and succeed in a mature segment," notes Steve Rockwell, an analyst for Baltimore, MD-based Alex. Brown & Sons. "There has to be a point of differ-

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ham, AL-based Skooter's Inc., a chain of some 16 double-drive-thru-only units. "There is probably a window of time, say two to five years, for us to really make our mark."

"Significant expansion of scaled-down units by the big burger chains would cannibalize their sales at full-size units," says Richard Reinhard, president of Central Park U.S.A. Inc., a Chattanooga, TN-based chain of 23 drive-thru-only units in the mid-South.

The Burger Babies have significant competitive advantages in today's marketplace. Says Ed Massey, president of Boulder, CO-based Round the Corner Restaurants Inc., which is developing a concept, "I feel like the drive-thru-only concepts address some of the major problems in the industry today, including high capitalization costs, shrinking labor markets, and the expense of liability insurance."

Wendy's has committed $35 million to an expanded test of its SuperBar, an all-you-can-eat hot and cold buffet.

ence, such as a significantly higher price/value relationship or a different niche. Any real growth has to be through acquisition."

Probably the most optimistic and aggressive operators in the burger segment today are those opening the scaled-down drive-thru-only operations. And, observers agree, they have reason for optimism.

NEW NICHE. The Burger Babies are chasing a very large market, analysts say; the typical hamburger operation sells about 60 percent of its food for off-premise consumption. "But I think it will be very difficult for these companies to compete on a long-term basis," says Rockwell. "The marketing resources of the big companies are so much greater."

"I think there is some truth to the idea that the Big Boys will react to the smaller, no-frills hamburger chains," agrees Jim Lunsford, vice president of franchise development for Birmingham, AL-based Skooter's Inc., a chain of some 16 double-drive-thru-only units. "There is probably a window of time, say two to five years, for us to really make our mark."

"Significant expansion of scaled-down units by the big burger chains would cannibalize their sales at full-size units," says Richard Reinhard, president of Central Park U.S.A. Inc., a Chattanooga, TN-based chain of 23 drive-thru-only units in the mid-South.

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THE GIANTS. Nevertheless, the Burger Babies are just that—babies—in comparison to the competition. Oak Park, IL-based McDonald's Corp., with 1986 systemwide sales of $12.4 billion and more than 12,000 units, is unquestionably the world's largest foodservice company. The public seems to view the company as something of an institution, and McDonald's estimates that 95 percent of all U.S. consumers eat at one of its restaurants at least once a year.

Both analysts and competitors agree that the company is just getting better and better at what it does, particularly in the area of marketing. Indeed, estimates of McDonald's advertising budget range from $600 million to nearly $800 million annually, more than the annual *sales* of all but the top tier of burger chains. Alex. Brown & Sons' Rockwell says bluntly, "The biggest problem facing other companies in the burger segment is McDonald's."

In October, McDonald's announced that third-quarter net income rose 14 percent, attributing the increase to the introduction of its new line of salads and continuing growth of its breakfast. Breakfast is estimated by analysts to total about 20 percent of sales, while the brand new salads may already account for five to seven percent of sales.

"McDonald's new salads are definitely a driving force," affirms Rockwell. "In fact, most of the strength in the burger segment is coming from product innovation, away from hamburgers. There is definitely a blurring of segments."

In fact, hamburgers have been dropping as a percentage of sales at McDonald's for some time. The company doesn't disclose sales of individual products, but it is estimated that burgers now account for roughly one-third of total sales, compared to more than 50 percent a decade ago.

While the McDonald's juggernaut rolls along, Miami-based Burger King is struggling for market share and facing flat sales. Burger King operates

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King, reported a 28 percent decline in operating profits for the year ended May 31, 1987, down to $219.2 million from $304.7 million in 1986. While restructuring charges ate into profits, the company admits that operating profits still declined 13 percent when those unusual charges are excluded.

The company has been plagued by management turnover and marketing problems; in just two years, Burger King has gone through several major ad campaigns, and in a decade has gone through five presidents. In October 1986, Charles S. Olcott, formerly chief financial officer, took over the reins of president. He stresses plans to cut costs, improve profit margins, and stabilize the erratic marketing approach.

Dublin, OH-based Wendy's Hamburger Restaurants is facing even more serious problems. But average unit volumes have stabilized and started to increase again after dropping to $767,000. Sales for the 1986 calendar year reached $2.75 billion, up two percent, according to Paul Raab, manager of corporate communications.

The company operates some 3,607 Wendy's restaurants in the U.S. and 16 countries. Wendy's was badly hurt by its botched introduction of a breakfast program in 1985, and has had trouble recovering. Observers say that recently Wendy's seemed to lose its focus; while recognizing that menu expansion was the wave of the future for fast feeders, the company failed to pay attention to details and protect its burger business.

For the first time ever, the company reported losses in the first half of last year, but Raab says that the losses have been stanched and that the company is very pleased with third-quarter results. Wendy's showed net income of $5 million during the third quarter of 1987, compared to a third-quarter loss of $47 million in 1986. (Results in the third quarter of 1986 reflected the effect of a $51.8 million after-tax charge in connection with a realignment program last year.)

Company revenues for the third quarter reached $272.2 million in 1987, compared to $293.5 million in 1986, while systemwide sales in the third quarter of 1987 climbed to $741.6 million, up from $710.8 million in the third quarter of 1985. Company revenues showed a dip in 1987 for two reasons, says Raab. During the 1986 realignment, 120 U.S. company-operated restaurants were set aside to be re-franchised, and their sales are not reflected in the year's revenues; and last year's revenues also reflected sales from the Sisters Chicken and Biscuits subsidiary, which has been sold.

What is more significant is that systemwide sales were up not only because there are more stores, but because sales per store were up in comparable restaurants. Says Raab, real sales for September were up about 5.5 percent over last year, with the sales increases adjusted for the number of units and price increases.

Analyst Rockwell believes that Wendy's, though troubled, can boast of some strengths. According to the company's consumer research, customers continue to see Wendy's burger as very high in quality.

Given Wendy's renewed focus on its

THE TOP 10 HAMBURGER CHAINS

COMPANY, HEADQUARTERS	ANNUAL SALES	NUMBER OF UNITS
MCDONALD'S OAKBROOK, IL	$12.4 BILLION	12,000
BURGER KING MIAMI, FL	$4.5 BILLION	4,700
WENDY'S DUBLIN, OH	$2.75 BILLION	3,600
HARDEE'S FOOD SYSTEMS INC. ROCKY MOUNT, NC	$2.7 BILLION	3,000
DAIRY QUEEN INTL. MINNEAPOLIS, MN	$935 MILLION[1]	3,500[2]
JACK IN THE BOX SAN DIEGO, CA	$587 MILLION	900
SONIC INDUSTRIES OKLAHOMA CITY, OK	$320 MILLION*	965
CARL KARCHER ENTERPRISES ANAHEIM, CA	$317 MILLION*	400
WHITE CASTLE SYSTEMS COLUMBUS, OH	$268.5 MILLION	227
WHATTABURGER INC. CORPUS CHRISTI, TX	$225 MILLION[3]	455

EXCEPT WHERE NOTED, FIGURES ARE BASED ON CALENDAR 1986
*FISCAL 1987
[1]FOOD SALES ONLY, DOESN'T INCLUDE ICE CREAM
[2]UNITS SERVING FOOD
[3]EST. BY TECHNOMIC CONSULTANTS

4,700 units in the U.S.; about 80 percent are franchised. Average unit volumes are estimated at $1.5 million, and are stable but not growing. In 1986, systemwide sales were $4.5 billion.

Minneapolis-based Pillsbury Restaurant division, dominated by Burger

burger, it is taking what could be a risky move: a greatly expanded test of the SuperBar, a hot and cold, self-serve, all-you-can-eat food buffet.

The 18-ft. bar, in three sections, is set off by a lighted canopy overhead and is angled to allow for multiple entry points. Included are the Garden Spot salad bar; a Mexican bar; and a pasta section. The SuperBar also features a top-your-own baked potato station, plus fresh fruits and puddings from the Garden Spot.

Price for the SuperBar averages $2.99 at lunch and $3.59 after 4 p.m. During a more limited test in about 380 company and franchised Wendy's in 57 test markets, the SuperBar increased sales by 15 percent, says Raab. The SuperBar is now added to almost all of Wendy's 1,120 company stores, and all franchise owners have been invited to participate in the test. Some $35 million has been allocated for installation of the bars in company restaurants.

Observers agree that, if handled well, the new SuperBar has the potential to give Wendy's a much-needed competitive boost. "The question is, will it confuse the consumer and take away from the hamburger, which Wendy's has recently been emphasizing?" asks Rockwell. "On the other hand, the SuperBar is a way to clearly differentiate Wendy's from the other fast-food restaurants."

At the same time that Wendy's has stumbled, Rocky Mount, NC-based Hardee's Food Systems Inc., a division of Imasco USA Inc., has gained ground. The two are now vying for position as the third largest burger chain. Hardee's 1986 sales also reached $2.7 billion, with projections of $3 billion for 1987. Same store sales are up considerably, says director of public relations Jerry Singer: from $802,000 last year to a projected $860,000 this year.

The company opened its 3,000th unit at year end, having had only 2,000 units open just four years ago. Hardee's is in a growth mode, and Singer notes that the company is looking for acquisitions to open up new territories.

The company is now in the process of rolling out more of its New Image units, a design incorporating natural wood, glass, a solarium, and freestanding tables in addition to a sit-down counter. Hardee's has also introduced salads and soft-serve ice cream, and has reformulated its quarter-pound hamburger.

Although generally recognized as a giant in the ice cream segment, Minneapolis, MN-based International Dairy Queen (IDQ) is also a considerable force in the burger segment. Its food counters offer hamburgers, hot dogs, chicken sandwiches, and more in about 70 percent of the company's nearly 5,000 units. Food other than dairy treats accounted for about 70 percent of 1986 sales of $1.7 billion—about $935 million, according to president Harris Cooper. That gives IDQ a firm claim to being the fifth largest hamburger chain, well ahead of regional competitors.

A contender for position as the third largest burger chain, Hardee's recently introduced salads (above), and is rolling out its New Image units (l.).

NEW PRODUCTS. The ice cream giant keeps plugging along in its unostentatious way, a fixture in many small towns around the country. Cooper says that two new products, a sandwich and a skewered product, will be introduced in early 1988, followed by a new treat in 1989.

At a level below the national giants, a number of large regional chains have carved out vast markets for them-

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gressive menu expansion. The menu diversification strategy was first considered in 1979, when the company first showed negative sales trends. By 1981, Jack in the Box had introduced the first of its "Supreme Sandwiches," a line positioned to appeal to adults. A Crescent Breakfast line was rolled out in 1982; then came prepackaged salads. In 1983, "Dinner in the Box," a complete meal designed to provide a fast-food dinner option, was rolled out. Later came the rollout of nachos and a Pita Supreme Sandwich.

Capitalizing on nostalgia, Oklahoma City-based Sonic Industries' units are old-fashioned drive-ins featuring carhop service.

selves and are doing well. They range from San Diego, CA-based Jack in the Box and Anaheim, CA-based Carl's Jr., owned by Carl Karcher Enterprises, both with a strong presence in the West, to Columbus, OH-based White Castle Systems, Oklahoma City-based Sonic Industries, Dearborn, MI-based A & W, and Chattanooga, TN-based Krystal, all with units scattered across the heartland.

Jack in the Box ranks sixth in the hamburger segment, with 1986 systemwide sales of over $587 million from some 900 units, about two-thirds of them company-owned. The company has been gaining attention with its aggressive menu expansion. The menu diversification strategy was first considered in 1979, when the company first showed negative sales trends. By 1981, Jack in the Box had introduced the first of its "Supreme Sandwiches," a line positioned to appeal to adults. A Crescent Breakfast line was rolled out in 1982; then came prepackaged salads. In 1983, "Dinner in the Box," a complete meal designed to provide a fast-food dinner option, was rolled out. Later came the rollout of nachos and a Pita Supreme Sandwich.

The company's newest menu introduction is Finger Foods, three items positioned as "fun to eat" for a meal or a snack. So far, Finger Foods account for a healthy 10 to 15 percent of the current sales mix, according to Paul Haack, division vice president for product marketing.

Despite the many product introductions, Haack points out that the chain constantly deletes menu items as well. "We have to be careful not to let the menu get unmanageable. We try to use existing cooking methods and ingredients, and to fit the new items into the flow." At present, Jack in the Box is testing a variety of new products, including additions to the Finger Food line and a couple of new hamburgers.

Carl Karcher Enterprises Inc., the other hamburger power in the West, is performing well after a disastrous year in fiscal 1987, when the company lost more than $7 million on declining revenues of $317 million. The 400-plus unit chain began showing a profit the first quarter of this fiscal year on revenues that were substantially higher than last year.

Aiding the company's turnaround have been new product introductions and a remodeling program. But the biggest difference has been a refocusing on its regional emphasis after an aborted attempt to expand nationally. The company has withdrawn from Texas and closed 35 units last year. Now it is focusing on its core markets of California, Arizona, and Nevada.

Oklahoma City-based Sonic Industries is strongest in Texas and Oklahoma but is represented in 20 states in the Southern tier. The company ended its fiscal '87 year in August with sales of $320 million with 955 units, 60 of them company-owned.

Sonic units are old-fashioned drive-ins with carhops delivering orders. "We're capitalizing on the nostalgia craze," says Roy Lemaire, vice president of corporate development. Sonic is remodeling units with a retrofit package costing $30,000. Older stores average volumes of $325,000, but new stores show sales of $500,000.

The company has entered into an aggressive expansion mode following a leveraged buyout by management in 1986. The newly private company opened 50 units in fiscal '87, and projects the opening of 60 new stores in fiscal '88, says Lemaire. Much of the expansion will be in California and Florida, areas where the company is not now represented.

Indications are that Sonic is intent on becoming a national chain. Acquisition seems the best route, but last year a deal to buy A & W fell through, and earlier this year an acquisition bid for Church's Fried Chicken failed. Lemaire is optimistic about opportunity in the segment. "Our financial position is very secure. We saw seven percent real sales increases on the store level in calendar '86."

Columbus, OH-based White Castle Systems is a quiet company that consistently posts satisfactory sales, and in fact, boasts of average unit volumes

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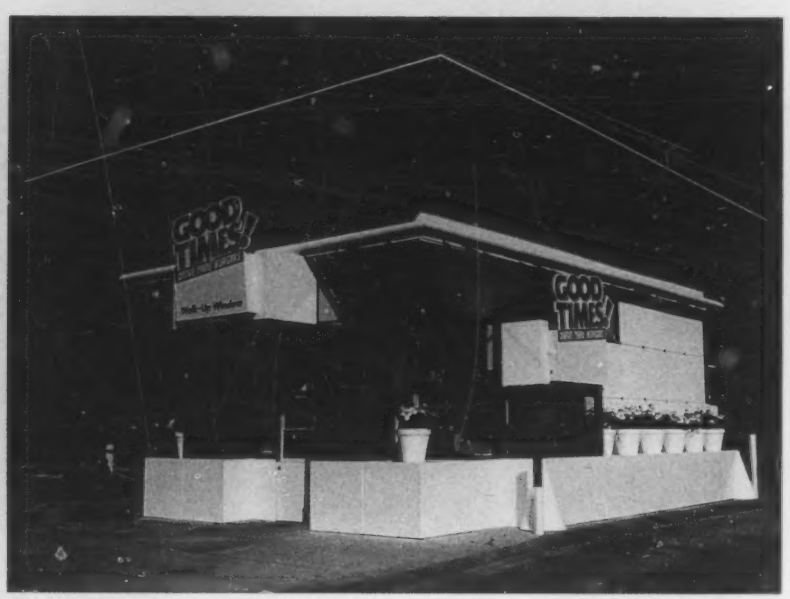
For more information on Wisconsin Milk Marketing circle number 266→

ment three shifts a day, seven days a week to keep up with demand. Based on the success of the initial test, White Castle is ready to roll out frozen burgers to four new markets.

A & W Restaurants is another significant force in the burger business in some markets, with 1986 systemwide sales of $150 million. Many units are seasonal, closing for the winter season, but same-store sales are up two percent over last year, according to Gary Owens, corporate communications administrator.



Good Times is Colorado-based Round the Corner Restaurant's entry into the limited menu, drive-thru-only niche.

of about $1.27 million—probably the second highest in the fast-food burger business behind McDonald's. Calendar 1986 sales were $268.5 million for 227 units. All units are company-owned and concentrated in Midwestern markets. The company is building 25 to 30 new units a year, venturing cautiously into new markets such as Philadelphia. Units cost a minimum of $750,000 for the building and equipment, not including land.

White Castle is test marketing the company's signature small hamburger in supermarkets. Tests have been underway in Columbus and Indianapolis, where the company has stores, and in Denver and Portland, OR, where White Castles are unfamiliar. The result, says Gail Turley, director of public relations, is that the pilot factory set up for the test markets had to implement three shifts a day, seven days a week to keep up with demand. Based on the success of the initial test, White Castle is ready to roll out frozen burgers to four new markets.

The company is continuing intensified expansion efforts with the development of several new restaurants in Michigan, where the company already has 78 restaurants clustered. Other development is concentrated in Michigan, Iowa, Minnesota, and Wisconsin. A & W has about 500 units in the U.S., mostly franchised, as well as 50 units in international markets. Of the total, just over 100 are drive-in-only, with another 240 offering drive-in with inside dining. Site selection has begun for a drive-thru-only concept to be located in the Detroit metro area.

HAMBURGER DELIVERY. With the success of delivery in other segments, it seemed inevitable that someone would attempt burger delivery. The first company to build a concept entirely around delivering burgers is Ann Arbor, MI-based Burger Fresh Systems Inc.

Burger Fresh began serving hamburgers in mall locations in late 1985. By mid-1987, eight mall units were open, two in Ann Arbor and six in Florida. At that point, the company shifted gears and began opening scaled-down delivery units. By October, the company operated or franchised 17 units, nine of them delivery-only, with plans to open 13 more in the Detroit area before year end.

New Burger Fresh units average 1,200 sq. ft. A central ordering telephone system is used, and Burger Fresh has a guaranteed 30-minute delivery. The signature product is a quarter-pound Fresh Burger with all the trimmings for $1.73. Some units are now grossing $400,000 on an annual basis. The company anticipates rapid growth in 1988, with the focus on Michigan.

LOCAL NICHES. Many small hamburger purveyors are carving out healthy niches for themselves on a regional or local basis. One of them is Vancouver, WA-based Burgerville Inc., whose marketing approach emphasizes the company's roots.

Says Pat Klinger, vice president of marketing, "Our new ad campaign focuses on what people miss when they move away from the Northwest. Of course, one of the things they say they miss is Burgerville."

Burgerville operates 31 units within a 90-mile radius of Vancouver, WA, which includes Portland, OR. Another three or four units will open by the end of the company's fiscal year in May, and a franchising program is in the works. Currently, all but one unit are company-owned. The company does not divulge sales figures.

Another successful small regional chain is Spangles Inc., based in Wichita, KS. Eleven units are now open, with three more sites acquired; all are company-owned. President Craig Steven intends to pursue company growth rather than franchised growth.

Spangles' operational system sets the chain apart from its competition. When customers place orders, counter personnel record the information on order pads. Then overhead cameras above each register zoom in on the pads, projecting the information onto a back room monitor. Food is prepared to order. Spangles also features a slightly more upscale ambience than many fast-food operations, but is similar to the major burger chains in pricing.

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rants Inc., which until now has operated upscale hamburger outlets. Now, Round the Corner is concentrating on the wholly owned Good Times subsidiary. Good Times is a 550-sq.-ft. concept offering walk-up and drive-thru-only service. The menu consists of a quarter-pound hamburger, a quarter-pound cheeseburger, a double burger, a chicken sandwich, shakes, fries, soft drinks, and an apple cinnamon dessert.

Massey believes that Good Times will not be in competition with Round the Corner Restaurants, because the two concepts are sufficiently different in style and focus. Both concepts are viable and will be pursued.

One of the first of the "Burger Babies," Grand Junction Hamburger Stations has a new, larger prototype for greater flexibility.

Sales are going up, with a startling 30 percent increase posted in 1987. Store volumes average about $800,000. Steven attributes the increase to sharp advertising and promotions. "With 10 stores in a city the size of Wichita, you can really advertise a lot," he says. New unit openings will be clustered for that reason.

BURGER BABIES. Drive-thru-only hamburger operations seem to be opening everywhere, and nearly everyone is predicting a shakeout. No one, however, questions the viability and appeal of the scaled-down units.

One company already successful in the hamburger segment whose management sees tremendous possibilities in the no-frills burger concept is Boulder-based Round the Corner Restau-

One Good Times unit is open so far in Denver, with six under development, all in the Denver ADI, which includes Boulder and Fort Collins. Massey says the company plans to open 30 to 35 Good Times units in the area over the next two to three years. Massey projects annual unit volumes of $650,000.

Skooter's Inc., with 16 units in Michigan, Florida, Indiana, and Las Vegas, NV, is typical of the companies concentrating exclusively on the drive-thru-only niche. The stores offer a limited menu of biscuits, burgers, fries, and chicken breast sandwiches with a check average of $2.40.

Currently, three units are company-owned, with the balance franchised; another 14 to 15 units will be open by March 1, according to vice president of franchise development Lunsford. Skooter's anticipates rapid growth using development agents, or franchisees with their own territories who subfranchise. Eight development agents are now in place.

Lunsford adds that investors are lured to the drive-thru-only concepts because the investment to open one is comparatively small, and the return is relatively good (Skooter's are currently grossing around $400,000, with newer stores posting higher volumes).

Central Park U.S.A. has 23 units, located in Tennessee, Arkansas, Georgia, and Alabama. So far, only two units are franchised, but a new franchising program is being put together.

The company seems to be moving into a professional management phase evinced by the recent hiring of Richard Reinhard as president and chief operating officer. Reinhard formerly was in charge of foodservice for Southland Corp.'s chain of 7-Eleven convenience stores. Central Park was founded by Robert Davenport Sr., whose family founded the Chattanooga-based Krystal Co.; Davenport remains as chairman of Central Park.

Central Park serves a quarter-pound hamburger for 89¢, large fries for 39¢, and a 20-oz. soda for 39¢. Burgers are fresh, never frozen, and are dressed and cooked to order. Until now, buildings have been eye-catching 12-ft.-x-12-ft. kiosks. The company has recently developed a new prototype unit with 200 additional sq. ft. of space, keeping the same exterior theme.

Another typical Burger Baby is Grand Restaurant Corp., operators of Grand Junction Hamburger Stations, headquartered in Lexington, KY, with 13 units. Ten are company-owned and three franchised. Another 25 or so franchises have been sold and units will open in the next two and a half years, according to Brian Sims, director of operations. Concentration will be in West Virginia, Kentucky, Illinois, and Florida, alongside existing units.

Grand Junction has a larger prototype to replace its current unit. The new building offers more storage space than the current building, so the company will have some future flexibility with its menu, says Sims.

Cautious observers can't help but see parallels between the frenzied activity in the Burger Babies segment to-

day and the excitement a few years ago about the Gourmet Burger niche.

GOURMET BURGERS. The Gourmet Burger boom went bust. Most of the companies are gone: Bonkers, Daly's Dandelion, Moxie's. Flaky Jake's has been exploring various financial restructuring plans. The size of the niche had been overestimated, and some companies had exalted expectations about ROI. The companies that survived did so by diversifying their menus. Dallas-based Chili's Inc. no longer considers itself a Gourmet Burger chain; nor does Applebee's Neighborhood Grill & Bar, which was until recently owned by New York City-based W.R. Grace & Co.'s restaurant division.

San Antonio, TX-based Fuddrucker's Inc., a battered but still viable survivor, has emerged as the only company that can claim national stature in the Gourmet Burger niche. The company is in a much stronger financial position after selling 32 company-owned units to franchisees, which reduced bank debt from $33 million to about $6 million, according to Bill Sivak, chief financial officer, senior vice president, and treasurer. The company also recently completed a stock rights offering to stockholders, which raised about $6 million in equity. The company reported a profit during its second quarter this year.

Fuddrucker's now operates 115 units in the U.S. and Canada, with 1986 sales of more than $100 million. Average unit volumes are about $1.4 million to $1.5 million, a slight drop over last year—but nowhere near the steep drop seen in the previous year. "In fact, this fall we are seeing some increases in comparable store sales," Sivak notes.

The company is pursuing modest expansion through franchising, with 15 to 20 new restaurants expected to open this year. A licensing agreement signed several years ago with a group in Japan is coming to fruition with the opening of several Japanese units. A licensing agreement in Argentina and a joint venture in Western Europe are under negotiation.

On the West Coast, Irvine, CA-based Red Robin International now operates 47 Gourmet Burger operations, 20 of them company-owned. Some 90 percent of the company is owned by Skylark of Japan, which also operates family restaurants in Japan. The company plans aggressive expansion in the future, with emphasis on filling out existing markets, says Mark Katz, marketing director. In addition to West Coast units, Red Robin International also operates a handful of units in New York and Florida.

North Carolina-based Fat Daddy's Market & Grill features a display butcher shop that grinds fresh hamburger meat for its gourmet burgers.

The 21-unit Round the Corner chain will continue to expand its Gourmet Burger concept at the same time that it develops the double-drive-thru concept, says president Massey. Two to three units will open in the coming year, and all Colorado stores are now undergoing complete cosmetic facelifts. Annual unit sales are about $850,000.

In the Southeast, Rudy's Restaurant Group Inc. has carved out a strong position for itself with a concept that combines elements of both traditional fast-food and Gourmet Burger concepts, according to Andrew Howard, the Miami-based company's vice president. Rudy's offers fast service combined with the high-quality food and upscale atmosphere of a Gourmet Burger operation. "We're sort of a very upscale Wendy's," says Howard.

Four Rudy's are open in South Florida, with three more under construction. All are company-owned at this point, although the company is working on a franchising plan. The company hopes to open six to eight new company restaurants over the next year.

Another Southeastern company that seems comfortable in the Gourmet Burger niche is Raleigh, NC-based Fat Daddy's Market & Grill, which operates three units in Raleigh and Fayetteville, NC—all company-owned.

Without price increases, unit sales have risen between 10 and 15 percent over the last year, according to president and chief operating officer John Vick. Vick developed the concept with Thad Eure Jr., owner of the Angus Barn in Raleigh and founder of the Darryl's chain, now part of Gilbert/Robinson Inc. Eure serves as chairman and chief executive officer. Units are grossing about $2 million a year.

Last year the restaurants added a breakfast buffet, and just recently a full salad and hot food bar was introduced. The all-you-can-eat salad and hot food bar sells for $3.75.

America's appetite for hamburgers is far from satiated. The market segment is tough, but it still contains opportunities for savvy operators. The Big Boys will undoubtedly continue to get bigger, but they will have to contend with a changing market, and respond with more menu diversification and alternate siting to react to competition. Trading on local loyalty, regional and small chains should be able to maintain status quo and even grow. For the Burger Babies, a shakeout seems to be looming, but for those who survive, the drive-thru-only niche should be lucrative. ■